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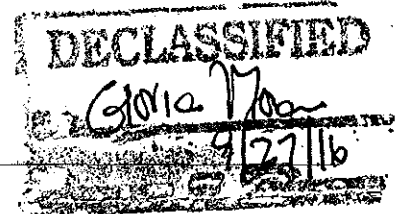
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REGION 6 EXECUTIVE SUMMARY

TOPIC: Falcon Refinery Superfund Site, SE Ingleside, Texas
CONTACT: Gary Moore, Brian Mueller, Gloria Moran, Bob Werner
PURPOSE: Enforcement Update

DATE: 02/19/14



BACKGROUND/HISTORY:

Jun 2004: Two AOCs (Removal AOC and Remedial AOC) issued to National Oil Recovery Corporation (NORCO). RI/FS AOC for Falcon Refinery as a Superfund Alternative Site.

2010

Feb 2010: Superior Crude Gathering, Inc. (Site's current lessee) had a large oil spill at the Site (spill cleaned up by Superior).

Feb 2010: NORCO advised EPA that it was financial unable to continue performance of Removal and RI/FS actions.

Feb. 2010 to March 2011:

EPA supports NORCO's attempt to sell the refinery because NORCO informs EPA that the sale proceeds would be used to finance the remaining requirements of the two orders.

2011

Feb 2011: NORCO advises EPA that a sale to a prospective purchaser is imminent, but does not close on the designated closing day.

Mar 2011: EPA invoked work takeover provisions in Removal and Remedial Orders for default of both orders. EPA also sends notice that EPA intended to perfect a lien on the property.

Apr 2011: EPA received \$1,000,000.00 from NORCO's two letters of Credit. (\$500,000.00 each deposited into two separate Special Accounts.

May 2011: NORCO entered into an Agreed Order to resume removal action.

Sep 2011: NORCO entered into an Agreed Order to resume RI/FS action.

Sep 2011: Site listed on the NPL.

Oct 2011: EPA sent to NORCO Notice of Deficiencies involving remedial action.

Dec 2011: For the second time, EPA found NORCO to be in default in the performance of the RI/FS Order and commenced a work takeover. EPA continues to perform RI/FS.

2012

Feb 2012: NORCO and Norcorom Industries, SRL (NORCOROM) (sell the Falcon Refinery Site to Lazarus Texas Refinery I, LLC (LTRI). Letter Agreement for this sale identifies Lazarus Energy Holdings, LLC (LEH) or LTRI (LEH's subsidiary) as buyers of the Falcon Refinery. The Letter Agreement identifies NOROC and Norcorom Industries, SRL as sellers of the Falcon Refinery. Letter Agreement also states that "... LEH and LTRI, jointly and severally, assuming and being solely responsible for costs, expenses and penalties in any way relating to ... the EPA mandated clean-up contemplated and provided for under the AOC's and Agreed Orders." John Carroll signed the Letter Agreement as Director for LEH and as the Director for LTRI.



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Mar 2012: EPA sent letter to NORCO demanding payment of \$209,036.12 to comply with RI/FS order.

Sep 2012: EPA Cincinnati sends notice of non-compliance letter to NORCO for failure to pay past due amount of \$209,036.12.

Dec. 2012 NORCO's counsel advises Region in phone conversation that Superior had a second oil spill at the Site (spill cleaned up by Superior).

2013

Jan. 2013: Region 6 referral of Superior Oil to DOJ alleging OPA violations by Superior.

July 2013: CERCLA 104(e) Information Request sent to NORCO requesting:

- 1) information concerning the assumption of responsibilities by LTRI for costs, expenses and penalties; and
- 2) Financial information to evaluate NORCO's obligations for the Site (inability to pay information).

Aug. 2013: CERCLA 104(e) Information Request sent to LTRI requesting:

- 1) Information relating to intent to be responsible for NORCO's costs, expenses and penalties involving the Removal/Remedial AOCs issued to NORCO,
- 2) Information concerning its relations to its numerous related business entities, and
- 3) Information concerning its possible status as a bona fide prospective purchaser (BFPP).

Aug 26, 2013: EPA received NORCO's CERCLA 104(e) response. EO's review of NORCO's response revealed numerous unanswered questions.

- NORCO and NORCOROM claim that, as of 08/26/13, they received \$929,294.40 of the Site's sales price, i.e., \$3,500,000.00 during the period 11/30/11 through 06/28/13. However, LTRI was not the source for any of the \$929,294.40 received sales proceeds.
- All reported payments originated from five named payees, all of which are controlled by Mr. Jonathan Carroll.
 - \$50,000.00 from payee named Blue Dolphin.
 - \$97,000.00 from payee named Lazarus Energy.
 - \$50,000 .00from payee named Blue Dolphin Services Co.
 - \$428,417.76 from payee named Lazarus Energy Holdings LLC
 - \$303,876.64 from payee named Ingleside Crude LLC
- NORCO claims to have received \$784,417.76 of the \$929,294.40.
- NORCOROM claims to have received \$148,876.64 of the \$929,294.40.
- Concerning why part of the Site's sales proceeds were paid to NORCOROM, NORCO claims Mr. Velicescu was a business associate of Mr. Maizus and prior to the LTRI/LEH sale transaction, attempted to broker the sale of the Site, using NORCOROM in his endeavors. In an effort to assist NORCOROM in its sales efforts, NORCO, in November of 2011, conveyed the 14.74 acre barge dock to NORCOROM, who in turn conveyed the 14.74 area barge dock to LTRI on 02/29/12, as part of the Refinery sale transaction.
- NORCO claims it has no audited or unaudited accounting records for its calendar years 2010 through 2012.
- NORCO claims it has not filed U.S. Income Tax returns for 2010 through 2012.

- Therefore the question remains unanswered: Does NORCO have available liquid assets from which EPA might recover future incurred Site removal and/or remedial costs.
- NORCO claims Mr. Solfred Maizus is the corporation's sole shareholder. EO has since confirmed that Mr. Maizus is now deceased, his date of death is 11/06/13.
- NORCO's response failed to explain if it was going to pay to the EPA the delinquent \$209,036.12 replenishment payment. NORCO's only response to this question was, "The Agreement, dated February 23, 2012 does not specifically mention the \$209,036.12 replenishment payment due from NORCO, our understanding has been that there were sufficient funds in escrow that would be used to cover any such NORCO deficiency."

Sep 18, 2013: EPA received LTRI's CERCLA 104(e) response. EO's review of NORCO's response revealed numerous unanswered questions.

- LTRI claimed to have paid \$1,355,921.04 towards the \$3,500,000.00 Site's sales price was paid to NORCO and NORCOROM during the period 12/01/11 through 09/04/13. Of this amount \$864,500.00 was paid to NORCO and \$491,421.04 was paid to NORCOROM. However, LTRI was not the source for any of the reported \$1,355,921.04 payments to NORCO and NORCOROM.
- All reported payments originated from four different business entities and one bank account, all of which are controlled by Mr. Jonathan Carroll.
 - \$100,000.00 paid by Blue Dolphin Services Company to NORCO.
 - \$97,000.00 paid by Lazarus Energy to NORCO.
 - \$362,500.00 paid by Lazarus Energy Holdings LLC to NORCO.
 - \$305,000.00 paid from unnamed account holder at Green Bank to NORCO.
 - Total payments to NORCO equal \$864,500.00
 - \$326,626.64 paid by Lazarus Energy Holdings LLC to NORCOROM.
 - \$164,794.40 paid from unnamed account holder at Green Bank to NORCOROM
 - Total payments to NORCOROM equal \$491,421.04
- LTRI's response documented the following two payments to that were made to NORCOROM during the period 11/30/11 through 06/28/13 that were not listed in NORCO's 08/26/12 response that :
 - On 02/29/12 Lazarus Energy Holdings LLC paid \$100,000.00 to NORCOROM.
 - On 09/21/12 Lazarus Energy Holdings LLC paid \$27,750.00 to NORCOROM..
- LTRI's response confirmed it has no intention to pay \$209,036.12 to the EPA for NORCO's delinquent replenishment payment. LTRI's position is that "the Letter Agreement, dated February 23, 2012 does not specifically mention the \$209,036.12 replenishment payment due from NORCO, our understanding has been that there were sufficient funds in escrow that would be used to cover any such NORCO deficiency."
- LTRI's response failed to provide requested documentation to shows its financial ability to complete NORCO's Removal Action at the Site. Instead LTRI responded that, "After several adverse events beyond our control, we have secured financing to continued removal of certain tank waste material and for the refurbishing of storage tanks at the Falcon Refinery. We are also currently pursuing additional financing for continued environmental remediation and refurbishment of the facility."

- LTR1's response failed to answer 104(e) the question if it intended to pay the assessed \$500,000.00 stipulated penalties in connection with NORCO's response actions at the Site.
- LTR1's response failed to include requested copies of documents to establish that it had, prior to its purchase of the Site, conduct "all appropriate inquiries" in an attempt to qualify for landowner liability protections provided by CERCLA.

RECOMMENDATIONS:

- Consideration be given for EPA to file lien on the Falcon Refinery to protect its interests in past and future removal and remedial costs.
- Consideration be given for EPA to follow-up with 104(e) letters to NORCO and to LTR1 to address data gaps revealed in their responses.
- Based upon LTR1's response that confirmed, prior to LTR1's purchase of the Site, LTR1 had failed to conduct "all appropriate inquiries" in an attempt to qualify for landowner liability protections provided by CERCLA and because LTRI is the Site's current owner of record, consideration be given to treat LRT1 as a PRP for the site.